

## Financial Results 2006

### **all customers, all products, nationwide.**

The building society that launched the ground-breaking *inter-generational mortgage* option, the UK's fastest growing\* and arguably most innovative building society today announces financial results for the year ended September 2006.

In a year that has seen competition intensify in an over supplied, saturated market in which costs are rising and margins reducing, Kent Reliance has achieved outstanding success. Assets have increased to £1.6 billion – representing growth of 25% which has outpaced the industry norm again this year through a combination of innovation, development of the offshore facility in India, franchise of branches, and focus on cost reduction to the benefit of members.

Kent Reliance was the first society to make available all products to all customers both existing and new – a year before Nationwide. Today in announcing the results for 2006, the Society reaffirms the pledge to treat all customers equally by ensuring that the same deals are available for all customers nationwide.

The Group is now four times the size that it was in 2001 when it had a management expense ratio of £1.40. Today it announces a reduction in its management expense ratio of 15% which at 50p makes it the lowest published management expense ratio in the industry.

Profit is not generally a measure that the Society uses to gauge success but recognising the need to generate sufficient internal capital, profit for 2006 has improved to a record £5.95 million – an increase of 47% for the year. That said, the Society profit ratio remains below the industry average demonstrating that the Society is returning more of the benefits of mutuality to the members than many in the peer group.

Mike Lazenby, Chief Executive of Kent Reliance said “2006 is a landmark year for us as we see the real impact of the cost and efficiency measures that we have been implementing over the last few years. Our Indian offshore operation – Easiprocess is gearing up to take on third party work as we expand into new leading edge premises in Bangalore, our franchise network is performing well and our Channel Islands based business represents a significant part of what we do. There is no society in the industry that can match our performance over the last five years in terms of growth, profit improvement, costs reduction and efficiency gain.”

Lazenby went on to comment on the difficult trading market saying “many societies will find it even harder to maintain an existence unless they do something radical and do it soon. We see evidence of societies talking to each other about merger but it is the blind leading the blind and if we ever have to consider a change of status then we do not want to be limited to the building society industry – that is why we abandoned charitable assignment during the year. Our objective is to treat all members as equal in status and we are no longer sure that charitable assignment does that. In the same way we do not expect one member to subsidise another which is why we have transferred branches to agencies and why we believe that refusing to allow existing members to benefit from deals that are available to new customers is not treating them fairly.

## Results in Focus

Highlights of Kent Reliance annual results are:

- Society management expenses ratio reduced by 15% to 0.50% of mean total assets
- Group mortgage balances up 26%, to £1.3 billion
- Group assets increased by 25%, to a record £1.6 billion
- Group savings balances up 19%, to a record £1.05 billion
- Group pre-tax profit up 47%, to £5.95 million

**NB.** These results are prepared under International Financial Reporting Standards (see Editor's notes)

**Notes for Editors:** For further information, or to arrange interviews, please contact Chief Executive Mike Lazenby on 01634 835771; mobile 07734 756001; email [mike.lazenby@krbs.com](mailto:mike.lazenby@krbs.com) or Communications Manager Mandi Ghattaora on 01634 835782; mobile 07734 971192.

### KENT RELIANCE BUILDING SOCIETY GROUP FINANCIAL RESULTS FOR THE YEAR ENDED 30 SEPTEMBER 2006 SUMMARY

	2006 £'000	2005 £'000
<b>INCOME STATEMENT</b>		
Net interest receivable	12,159	10,628
Other Income and charges	1,205	286
Administrative expenses	(7,357)	(6,905)
Impairment provisions	(53)	48
<b>Profit before Taxation</b>	<b>5,954</b>	<b>4,057</b>
Taxation	(1,793)	(1,230)
<b>Profit for the year</b>	<b>4,161</b>	<b>2,827</b>
<b>BALANCE SHEET</b>		
Liquid assets	315,164	261,495
Mortgages	1,271,583	1,007,087
Other loans	26,307	26,264
Fixed and other assets	5,547	3,813
<b>Total assets</b>	<b>1,618,601</b>	<b>1,298,659</b>
Shares	1,045,423	876,455
Borrowings	471,196	347,568
Other liabilities	3,464	2,678
Subordinated liabilities	23,118	22,829

Subscribed capital	36,728	14,714
Reserves	38,672	34,415
Total liabilities	<u>1,618,601</u>	<u>1,298,659</u>

## Editor's Notes

### International Financial Reporting Standards (IFRS)

1. These results are our first to be published under IFRS and the accounting policies are in accordance with all standards and related interpretations that have been adopted by the European Union as at 30 Sept 2006. Whilst profits under IFRS are expected to be more volatile the net impact on this year's result has not been substantial.

2. Comparison between 2006 and 2005 is not necessarily like for like due to the provisions of IFRS I 'First time adoption of International Reporting Standards' in respect of the adoption of International Accounting Standard (IAS) IAS39 'Financial Instruments: Recognition and Measurement' and IAS32 'Financial Instruments: Disclosure and Presentation' on 1 October 2005.

3. Reconciliations showing the impact on the Group and Society opening balance sheets are shown in the full annual report and accounts.

### BACKGROUND INFORMATION – KENT RELIANCE BUILDING SOCIETY

- We are arguably the most successful Society in the UK with a reputation for innovation.
- We have the lowest published management expense ratio in the industry with fastest reducing costs, fastest rate of asset growth over five years.\*
- The Kent Reliance Group is made up of Kent Reliance Building Society, Jersey Home Loans Limited, Guernsey Homeloans Limited, Easiprocess Private Limited and Reliance Property Loans Limited.
- Kent Reliance is the only society to have an offshore outsource operation – Easiprocess -based in Bangalore.
- The Society has pursued a branch to agent franchise programme such that it now has only one branch remaining.
- A core objective over the next 12 months will be the development of third party services and offshore consultancy.
- Kent Reliance is the only Building Society to have a Jersey registered mortgage business – Jersey Homeloans Limited – which is also the fastest growing lender on the island having increased assets by 56% in the year to September 2006.
- Guernsey Homeloans Limited is the fastest growing lender on Guernsey with an increase in assets of 123% in the year to 30 September 2006

\* KPMG annual Building Societies Database Sept 2006